Reply form

**on the** **call for evidence on shortening of the settlement cycle**

Responding to this paper

ESMA invites comments on all matters in this paper and in particular on the specific questions summarised in Annex 1. Comments are most helpful if they:

* respond to the question stated;
* indicate the specific question to which the comment relates;
* contain a clear rationale; and
* describe any alternatives ESMA should consider.

ESMA will consider all comments received by **15 December 2023.**

All contributions should be submitted online at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘Your input - Consultations’.

Instructions

In order to facilitate analysis of responses to the Consultation Paper, respondents are requested to follow the below steps when preparing and submitting their response:

• Insert your responses to the questions in the Consultation Paper in this reply form.

• Please do not remove tags of the type < ESMA\_QUESTION\_SETT\_0>. Your response to each question has to be framed by the two tags corresponding to the question.

• If you do not wish to respond to a given question, please do not delete it but simply leave the text “TYPE YOUR TEXT HERE” between the tags.

• When you have drafted your responses, save the reply form according to the following convention: ESMA\_CP1\_SETT \_nameofrespondent.

For example, for a respondent named ABCD, the reply form would be saved with the following name: ESMA\_CP1\_SETT \_ABCD.

• Upload the Word reply form containing your responses to ESMA’s website (**pdf documents will not be considered except for annexes**). All contributions should be submitted online at *www.esma.europa.eu* under the heading *‘Your input - Consultations’.*

**Publication of responses**

All contributions received will be published following the close of the consultation, unless you request otherwise. Please clearly and prominently indicate in your submission any part you do not wish to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESMA’s rules on access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA’s Board of Appeal and the European Ombudsman.

**Data protection**

Information on data protection can be found at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘[Data protection](https://www.esma.europa.eu/about-esma/data-protection)’.

**Who should read this paper?**

All interested stakeholders are invited to respond to this consultation paper. In particular, ESMA invites market infrastructures (CSDs, CCPs, trading venues), their members and participants, other investment firms, issuers, fund managers, retail and wholesale investors, and their representatives to provide their views to the questions asked in this paper.

# General information about respondent

|  |  |
| --- | --- |
| Name of the company / organisation | UK Finance |
| Activity | Associations, professional bodies, industry representatives |
| Are you representing an association? |  |
| Country / Region | UK |

# Questions

1. : Please describe the impacts on the processes and operations from compressing the intended settlement date to T+1 and to T+0. Please:
2. provide as much detail as possible on what issues would emerge in both cases and how they could be addressed with special attention to critical processes (matching, allocation, affirmation and confirmation) and interdependencies. Where relevant please explain if these are general or asset class/instrument/ trade specific.
3. Identify processes, operations or types of transaction or financial instrument class that would be severely impacted or no longer doable in a T+1 and in a T+0 environment.

**Please, suggest if there are legislative or regulatory actions that would help address the problems. Where relevant please explain if these are general or asset class/instrument/ trade specific.**

<ESMA\_QUESTION\_SETT\_1>

UK Finance is the collective voice for the banking and finance industry. Representing more than 300 firms across the industry, it seeks to enhance competitiveness, support customers and facilitate innovation. Our primary role is to help our members ensure that the UK retains its position as a global leader in financial services. To do this, we facilitate industry-wide collaboration, provide data and evidence-backed representation with policy makers and regulators, and promote the actions necessary to protect the financial system. UK Finance’s operational activity enhances members’ own services in situations where collective industry action adds value. Our members include both large and small firms, national and regional, domestic and international, corporate and mutual, retail and wholesale, physical and virtual, banks and non-banks. Further information is available at: [www.ukfinance.org.uk](http://www.ukfinance.org.uk)

Given the international nature of capital markets and the importance of harmonised settlement cycles, UK Finance welcomes the opportunity to respond to the questions related to non-EU jurisdictions.

UK Finance is registered on the EU Transparency Register, registration number 537082732275-03.

<ESMA\_QUESTION\_SETT\_1>

1. : What would be the consequences of a move to a shorter settlement cycle for (a) hedging practices (i.e. would it lead to increase pre-hedging practices?), (b) transactions with an FX component?

<ESMA\_QUESTION\_SETT\_2>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_2>

1. : Which is your current rate of straight-through processing (STP ), in percentage of the number and of the volume of transactions broken down per type of transaction or per instrument as relevant? In case STP is used only for certain processes/operations, please identify them. Which are the anticipated challenges that you envisage in improving your current rate of STP?

<ESMA\_QUESTION\_SETT\_3>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_3>

1. : Please describe the impacts that, in your views, the shortening of the securities settlement cycle could have beyond post-trade processes, in particular on the functioning of markets (trading) and on the access of retail investors to financial markets. If you identify any negative impact, please identify the piece of legislation affected (MiFID II, MiFIR, Short Selling Regulation…) and elaborate on possible avenues to address it.

<ESMA\_QUESTION\_SETT\_4>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_4>

1. : What would be the costs you would have to incur in order to implement the technology and operational changes required to work in a T+1 environment? And in a T+0 environment? Please differentiate between one-off costs and on-going costs, comparing the on-going costs of T+1 and T+0 to those in the current T+2 environment. Where relevant please explain if these are general or asset class/instrument/ trade specific.

<ESMA\_QUESTION\_SETT\_5>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_5>

1. : In your view, by how much would settlement fails increase if T+1 would be required in the short, medium and long term? What about T+0? Please provide estimates where possible.

<ESMA\_QUESTION\_SETT\_6>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_6>

1. : In your opinion, would the increase in settlement fails/cash penalties remain permanent or would you expect settlement efficiency to come back to higher rates with time? Please elaborate.

<ESMA\_QUESTION\_SETT\_7>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_7>

1. : Is there any other cost (in particular those resulting from potential impacts to trading identified in the previous section) that ESMA should take into consideration? If yes, please describe the type of cost and provide estimates.

<ESMA\_QUESTION\_SETT\_8>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_8>

1. : Do you agree with the mentioned benefits? Are there other benefits that should be accounted for in the assessment of an eventual shortening of the securities settlement cycle?

<ESMA\_QUESTION\_SETT\_9>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_9>

1. :Please quantify the expected savings from an eventual reduction of collateral requirements derived from T+1 and T+0 (for cleared transactions as well as for non-cleared transactions subject to margin requirements).

<ESMA\_QUESTION\_SETT\_10>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_10>

1. : If possible, please provide estimates of the benefits that you would expect from T+1 and from T+0, for example the on-going savings of potentially more automated processes.

<ESMA\_QUESTION\_SETT\_11>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_11>

1. : How do you assess the impact that a shorter settlement cycle could have on the liquidity for EU markets (from your perspective and for the market in general)? Please differentiate between T+1 and T+0 where possible.

<ESMA\_QUESTION\_SETT\_12>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_12>

1. : What would be the benefits for retail clients?

<ESMA\_QUESTION\_SETT\_13>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_13>

1. : How would you weigh the benefits against the costs of moving to a shorter settlement cycle? Please differentiate between a potential move to T+1 and to T+0.

<ESMA\_QUESTION\_SETT\_14>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_14>

1. : Please describe the main steps that you would envisage to achieve an eventual shorter securities settlement cycle. In particular, specify: (i) the regulatory and industry milestones; and (ii) the time needed for each milestone and the proposed ultimate deadline.

<ESMA\_QUESTION\_SETT\_15>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_15>

1. : Assuming that the EU institutions would decide to shorten the securities settlement cycle in the EU, how long would you need to adapt to the new settlement cycle? And in the case of a move to T+0?

<ESMA\_QUESTION\_SETT\_16>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_16>

1. : Do you think that the CSDR scope of financial instruments is adequate for a shorter settlement cycle? If not, what would be in your views a more adequate scope?

<ESMA\_QUESTION\_SETT\_17>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_17>

1. : Is it feasible to have different settlement cycles across different instruments? Which are the ones that would benefit most? Which least?

<ESMA\_QUESTION\_SETT\_18>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_18>

1. : Which financial instruments/ transaction types are easier to migrate to a shorter settlement period in the EU capital markets? Does the answer differ by asset class? Should it be feasible/advisable to have different migration times for different products/markets/assets? If yes, please elaborate.

<ESMA\_QUESTION\_SETT\_19>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_19>

1. : Do you think that the settlement cycle for transactions currently excluded by Article 5 of CSDR should be regulated? If you think that the settlement cycle of some or all of these transactions should be regulated, what would be in your view an appropriate length for their settlement cycle?

<ESMA\_QUESTION\_SETT\_20>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_20>

1. : Please describe the impact(s) that the transition to T+1 in other jurisdictions has had or will have on your operations, assuming the EU remains on a T+2 cycle.

<ESMA\_QUESTION\_SETT\_21>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_21>

1. : Can you identify any EU legislative or regulatory action that would reduce the impact of the move to T+1 in third countries for EU market participants? Please specify the content of the regulatory action and justify why it would be necessary. In particular, please clarify whether those regulatory actions would be necessary in the event of a transition of the EU to a shorter settlement cycle, or they would be specific only to address the misaligned cycles.

<ESMA\_QUESTION\_SETT\_22>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_22>

1. : Do you see benefits in the harmonisation of settlement cycles with other non-EU jurisdictions?

<ESMA\_QUESTION\_SETT\_23>

Yes, UK Finance members see benefits in the harmonisation of settlement cycles with other non-EU jurisdictions for a variety of reasons:

1. Funding: The impact of cross market funding is one of the most pertinent aspects of mis-aligned settlement cycles that members are experiencing, with regards to the US’ move to T+1. For example, where a sale trade in an EU market (T+2 settlement cycle) would be used to fund a buy trade in the US (T+1 cycle post 28 May 2024) it could result in one of the following outcomes:
   * 1. The EU sale being booked outside of the EU convention to T+1 to align with the US purchase
     2. The US purchase would fail for a day until the EU delivery settles, or
     3. The US purchase is funded by the custodian allowing it to settle on time, which would however incur funding charges

Options ii and iii may not always be practical so the impact may be an increase in the number of irregular settlements in the EU if cycles are not aligned, which would increase operational complexity and funding charges.

There are also specific products where complexity is heightened due to different settlement cycles across jurisdictions, for example, multi listed securities and those with a foreign dependency, such as ETFs, depositary receipts and dual listed stocks. There will also be specific challenges, and associated risks, with respect to corporate actions processing for securities traded on different exchanges with different standard settlement cycles.

1. Technology and processing: As technical and operational models are likely to need to change for the US’ move to T+1, and the potential UK move to T+1, UK Finance members running global operational teams could seek to leverage new tech solutions and operational processes being implemented for US T+1 for technology and operational processes supporting EU markets. However, it can often be the case that different technology solutions are used by global firms for their processing across jurisdictions, for example, the technology stack supporting processes in the US may differ in order jurisdictions such as the EU and the UK owing to different market conventions, market processes and regulatory considerations. All this being said, globally active firms operating in the EU could see T+1 as an opportunity to improve technology and operational processes which will ultimately benefit in harmonisation of settlement cycles with other jurisdictions.
2. Cross border complexity: The harmonisation of settlement cycles would alleviate the complexity and impact to ‘cross-border’ markets and instruments, such as DTCC vs ICSDs, dual-listed instruments, Eurobonds and ETFs. For example, concerning the US move to T+1 there is still complexity around settlement conventions across DTCC vs ICSDs or the convention that foreign instruments should take. Furthermore, aligned settlement cycles would benefit global ETF baskets, which might include instruments from multiple jurisdictions. Whilst there will be misalignment in these baskets today as there is not a global settlement convention, if however, the basket consisted of, for example, US, UK and EU instruments it would be beneficial for the same settlement convention of the underlying.

Furthermore, UK Finance members note that given the cross-border nature of European capital markets, there is value in a coordinated move to T+1 between the EU, Switzerland, and the UK, to the extent that this is possible.

<ESMA\_QUESTION\_SETT\_23>

1. : Would reducing the settlement cycle bring any other indirect benefits to the Capital Markets Union and the EU's position internationally?

<ESMA\_QUESTION\_SETT\_24>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SETT\_24>

1. : Do you consider that the adaptation of EU market participants to the shorter settlement cycles in other jurisdictions could facilitate the adoption of T+1 or T+0 in the EU? Please elaborate.

<ESMA\_QUESTION\_SETT\_25>

Yes, adapting to shorter settlement cycles in other jurisdictions would help to facilitate the adoption of T+1 or T+0 in the EU. UK Finance members will need to run operational, technical, FX funding models that are on a T+1 cycle in light of the upcoming US T+1 implementation. It is also important to note that there are already markets running T+1 and T+0 settlement cycles (bond markets, discount securities markets, India, China (including Stock Connect), Chinese DRs in the UK/Swiss/Germany, Japan). However, whilst there could be funding and FX models in place today which could apply, it is important to note that markets such as China and India operate very differently to the EU and there are limited areas which can be replicated or learnt from.

This differs from the upcoming US implementation, where there will be aspects which can be leveraged. The US approach to allocations and confirmations (although affirmations are not EU market practice) devising market practice to ensure that the processing takes place on trade date before 21.00pm EST is a requirement that the EU (and the UK) could seek to replicate to optimise timely settlement. Furthermore, requiring the settlement instruction, including realignments, to reach the CSD by the end of its market close would also be beneficial as it would ensure as much flow as possible would be presented for overnight settlement leaving T+1 / ISD to resolve discrepancies and ensure remaining inventory is in the right place (should it not have been ahead of the overnight process).

EU market participants will also be able to learn from any processing and technology changes devised for the US market can be replicated in the EU. For example, the use of vendor solutions or intermediary services. EU market participants may also be able to leverage solutions that bridge the time zone gap, especially where the market participant provides services to clients outside of the EU.

<ESMA\_QUESTION\_SETT\_25>

1. : Would different settlement cycles in the EU and other non-EU jurisdictions be a viable option?

<ESMA\_QUESTION\_SETT\_26>

Despite recent moves to T+1, such as India, the US, Canada and Mexico, a global settlement cycle does not exist today, indeed some markets have only just moved to T+2. As such, the global securities market and its investors have already experienced misalignment, for example 2014-2017 when the EU (and UK) moved to T+2 in 2014 and the US didn’t move until 2017. However, the upcoming US move to T+1 does bring into question just how viable and for how long the EU (and UK) should be and can be misaligned to the US. The underlying point is that there are significant advantages in an alignment of settlement cycles for all market participants that have cross-border activity, or that invest in asset types with a cross-border dimension, such as dual-listed securities, ETFs and depositary receipts.

Nonetheless, UK Finance members believe that different settlement cycles is not just a viable option, but it is the only foreseeable situation. Currently, not all markets settle on a T+2 basis so we must assume that not all markets will move to T+1 (China will not move from T+0). Therefore, a continued global misalignment is inevitable. What is critical though is that the EU moves in the same direction as close as possible to other non-EU jurisdictions that it has the most crossover with, in terms of funding of client activities, cross border settlement, e.g. between EU CSDs and UK CREST, but also in terms of markets, such as ETFs.

<ESMA\_QUESTION\_SETT\_26>

1. : Please elaborate about any other issue in relation to the shortening of the securities settlement cycle in the EU or in third-country jurisdictions not previously addressed in the Call for Evidence.

<ESMA\_QUESTION\_SETT\_27>

UK Finance members believe that the greatest challenge that the EU faces that is not so present in other markets is the impact of CSDR penalties. Whilst settlement efficiency in the EU has improved since CSDR cash penalties have been introduced, the rate of improvement is not as high as the industry was hoping for. Until the reasons for settlement fails are fully understood across the industry, and the necessary remedial steps are introduced across all market participants involved, including FMIs and EU market structure, for example, to improve cross-border settlement. With a move to T+1, it is possible that settlement rates might get worse rather than better.

The other key factor that is more relevant to the EU, compared to other markets looking to prioritise shortened settlement cycles is the underlying, fragmentated market structure in terms of exchanges, CSDs, CCPs and regulators. Securing consensus and alignment amongst a greater number of stakeholders will be challenging over and could create more risk with the move that would not have been seen with the US move (or potential UK move). Realistically, EU firms, investors in EU securities but more importantly, the bodies overseeing the move for the EU will need to work collaboratively before concluding that the overall framework for the market that must be in place for such a move to be net beneficial to the EU

In addition, with regards to FX markets, it will be important for CLS to align with the securities markets, given that the EU has 14 currencies and therefore there is the potential for an increase in currency risk.

Another issue that is worth noting is in relation to the fund cycle. The misalignment of the funds cycle which is between T+2 and T+4, and the securities settlement cycle, will need to be bridged, with a view to aligning on T+1 ideally, assuming that this is the global direction of travel.

<ESMA\_QUESTION\_SETT\_27>